

## **Congressional Republicans Defend Tax Cuts with Fuzzy Math**

Congressional Republicans are now trying to claim that the tax cut they recently enacted on capital gains and dividends actually favored low-income Americans. The May 17 release from the Senate Finance Committee is an exercise in outrageous statistical chicanery.

To defend their preposterous conclusion, GOP lawmakers apparently started with a reasonable estimate of the effects of the capital gains and dividends tax cut by the Joint Committee on Taxation. The implied (but unpublished) JCT figures appear to be similar to those published by Citizens for Tax Justice — which is to be expected since they were calculated on very similar computer tax models.

Both the CTJ figures and the implied JCT figures show that the capital gains and dividends tax cut is heavily concentrated on the very rich. That's not surprising, since capital gains and dividend income goes mainly to the well off. For example, the JCT figures, as recreated by CTJ from the limited figures published by Senate Finance Committee Republicans, indicate:

- The 71 percent of tax filers with incomes below \$50,000 will get an average 2009 tax cut from the GOP capital gains and dividends tax cut of only \$3.
- The 13 percent of tax filers with incomes between \$50,000 and \$75,000 will get an average of only \$78.
- But the 0.1 percent of tax filers with incomes greater than \$1 million will get an average 2009 tax cut of almost \$60,000 each. In fact, almost half of the total tax cut dollars will go to this tiny group of extremely wealthy tax filers.

Unhappy with these sad but true figures, Republicans decided to cook the numbers to reach an impossibly opposite conclusion. Here's how:

First, the GOP decided to measure the size of the capital gains and dividends tax cut only on those taxpayers who actually got anything from it! Since the vast majority of middle- and lower-income Americans have zero capital gains and dividends, this silly approach hugely inflated the average tax cuts in these groups.

- For taxpayers with adjusted gross incomes below \$50,000, for example, only 3 percent will get anything at all from the capital gains tax cut and only 6 percent will benefit from the dividends tax cut. By leaving out the approximately 93 percent of the people who get nothing, the GOP inflated the apparent size of the dividend tax cut for this group by a factor of 17 and the capital gains tax cut by a factor of 30!
- Likewise, for taxpayers making between \$50,000 and \$75,000, the GOP essentially multiplied the total tax cut by 6.2. For those making \$75,000 to \$100,000, the multiplier was 4.5. And so on, up to those making more than \$1 million, for whom the multiplier was only 1.7.

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But even that wasn't enough for the GOP deceivers. Having done all this multiplication, their silly figures still showed that their tax cut was heavily tilted in favor of the rich.

So, as a second piece of spin, Republicans then preposterously decided to recalculate the tax cuts as a percentage of income taxes — the only figures they actually published. Since on average people making less than \$50,000 pay very little federal income tax — only about \$440 each — that further inflated the GOP's calculation of the size of their tax cut for lower income groups. Conversely, since rich taxpayers on average pay higher income tax rates than poor and middle-income Americans, this approach made the tax cuts for the rich look relatively smaller.

A Senate Finance Committee press flack wrote to reporters, "The point of our charts is to show that meaningful benefits go to taxpayers across the income spectrum" — even though everyone knows that's not true.

"To put this statistical chicanery in perspective," said Robert S. McIntyre, director of Citizens for Tax Justice, "imagine that the recent tax bill had cut income tax in half for everyone making more than a million dollars, and had also cut taxes by 100 percent for one person making less than \$50,000. Under the GOP's preposterous approach, people making less than \$50,000 would have done twice as well as millionaires, even though all but one of those 108 million people making less than \$50,000 got absolutely nothing."

"I suppose that the good news in all of this is that Republicans are apparently embarrassed at how unfair their capital gains and dividends tax cut is," said McIntyre. "The bad news is how willing they are to lie to try to deal with their serious public-relations problem."

A table detailing the Republicans' fuzzy math is on page 3. The GOP's e-mail release and tables sent to the press on May 17, 2006 are on pages 4-7.

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## How Republicans hope to persuade you that their tax cuts for the rich aren't unfair

Adjusted Gross Income Group	Averages for all filers in group (including the vast majority who get nothing)				% with capital gains tax cut	% with dividend tax cut	GOP Spin #1: Ignore the vast majority who get nothing		GOP Spin #2: Divide that by income taxes before the tax cut	
	Total 2009 tax cut \$-billion	Capital gains tax cut	Dividends tax cut	Both tax cuts			Average capital gains tax cut with	Average dividend tax cut with	Capital gains tax cut	Dividends tax cut
<\$50K	\$ 0.3	\$ 1	\$ 2	\$ 3	3%	6%	\$ 45	\$ 33	10.2%	7.6%
\$50-75K	1.6	35	43	78	12%	22%	287	195	5.3%	3.6%
\$75-100K	1.7	58	70	128	17%	31%	345	227	3.8%	2.5%
\$100-200K	5.4	167	171	338	24%	44%	700	389	3.6%	2.0%
\$200-500K	6.1	866	777	1,642	35%	65%	2,501	1,188	4.0%	1.9%
\$500K-1mill	4.5	4,782	2,818	7,600	50%	75%	9,564	3,757	5.6%	2.2%
\$1 mill+	18.3	40,373	19,599	59,972	50%	100%	80,747	19,599	10.3%	2.5%
<b>ALL</b>	<b>\$ 38.0</b>	<b>\$ 160</b>	<b>\$ 108</b>	<b>\$ 268</b>	<b>8%</b>	<b>14%</b>	<b>\$ 2,090</b>	<b>\$ 781</b>		
<b>Source:</b>	JCT/GOP implied & ITEP Tax Model*				JCT		GOP implied**		GOP as published	
<b>Assessment:</b>	Reasonable				Reasonable		SILLY		PREPOSTEROUS	

\*These were the (unpublished) figures that the GOP apparently started with. To recreate them, the ITEP Tax Model was used only for estimated income taxes and number of filers in 2009. The GOP supplied tax cuts as a share of income taxes for those with tax cuts. The JCT supplied the percentage of filers with capital gains and dividends tax cuts. The subsequent calculations were straightforward.

\*\*Average tax cuts for all filers in group as calculated to the left, divided by the percentage with tax cuts from JCT.

Note: GOP = Republican staff of Senate Finance Committee.

JCT = staff of the Joint Committee on Taxation. ITEP = Institute on Taxation and Economic Policy.

Source: Citizens for Tax Justice, May 18, 2006.

-----Original Message-----

From: Office, Press (Finance-Rep)  
[mailto:Press\_Office@finance-rep.senate.gov]  
Sent: Wednesday, May 17, 2006 5:04 PM  
To: Gerber, Jill (Finance-Rep)  
Subject: tax bill analysis -- please read

On background, please, and you can attribute to a Chairman Grassley/Finance Committee analysis if needed, a lot of the coverage of the tax reconciliation bill is citing Tax Policy Center analysis. While everybody here respects the Tax Policy Center, we feel strongly that its analysis is not neutral and shouldn't be treated as such in news coverage. A group might call itself non-partisan and still have a philosophical underpinning that colors its analysis. We believe the Tax Policy Center does not share our view that tax relief to encourage economic growth is highly desirable. Also, the implication of the group's analysis seems to be that a tax bill should provide relief to individual taxpayers relative to income levels. Our belief is that a tax bill should provide relief to taxpayers relative to tax burden. The Tax Policy Center's per-taxpayer savings numbers dilute the real savings of those who actually receive benefits by including all taxpayers. The attached capital gains and dividends charts show the percentage savings for those taxpayers who actually will save taxes because of the lower rates on dividends and capital gains. Another point -- the biggest beneficiaries of the AMT hold harmless relief, which everybody seems to agree is appropriate, are those in the \$100,000 to \$200,000 and \$200,000 to \$500,000 adjusted gross income categories. The lower rates on dividends and capital gains benefit lower income taxpayers more than the AMT relief.

For those who argue that the federal Treasury Department endorses the Tax Policy Center's model, our understanding is that the Treasury Department has not tested the model and even if it had, would need to carefully study the assumptions used in the model before reaching any conclusion as to the model's accuracy.

An analysis accounting for tax burden should take into account the effect of all prior tax relief. For example, the 2001 tax bill created the new 10 percent tax rate for income that had been taxed at 15 percent. That's of great value to low-income taxpayers. The new 10 percent tax rate cost \$421 billion over 10 years. An analysis of the current bill's effects by income won't take into effect prior generous tax relief. Please consider these points as you cover the tax debate.

Attached is spreadsheet reflecting our analysis using Joint Committee on Taxation numbers. Please use the spreadsheet for reference and not reproduction as is. The point of our charts is to show that meaningful benefits go to taxpayers across the income spectrum. Thank you. --  
Jill G.

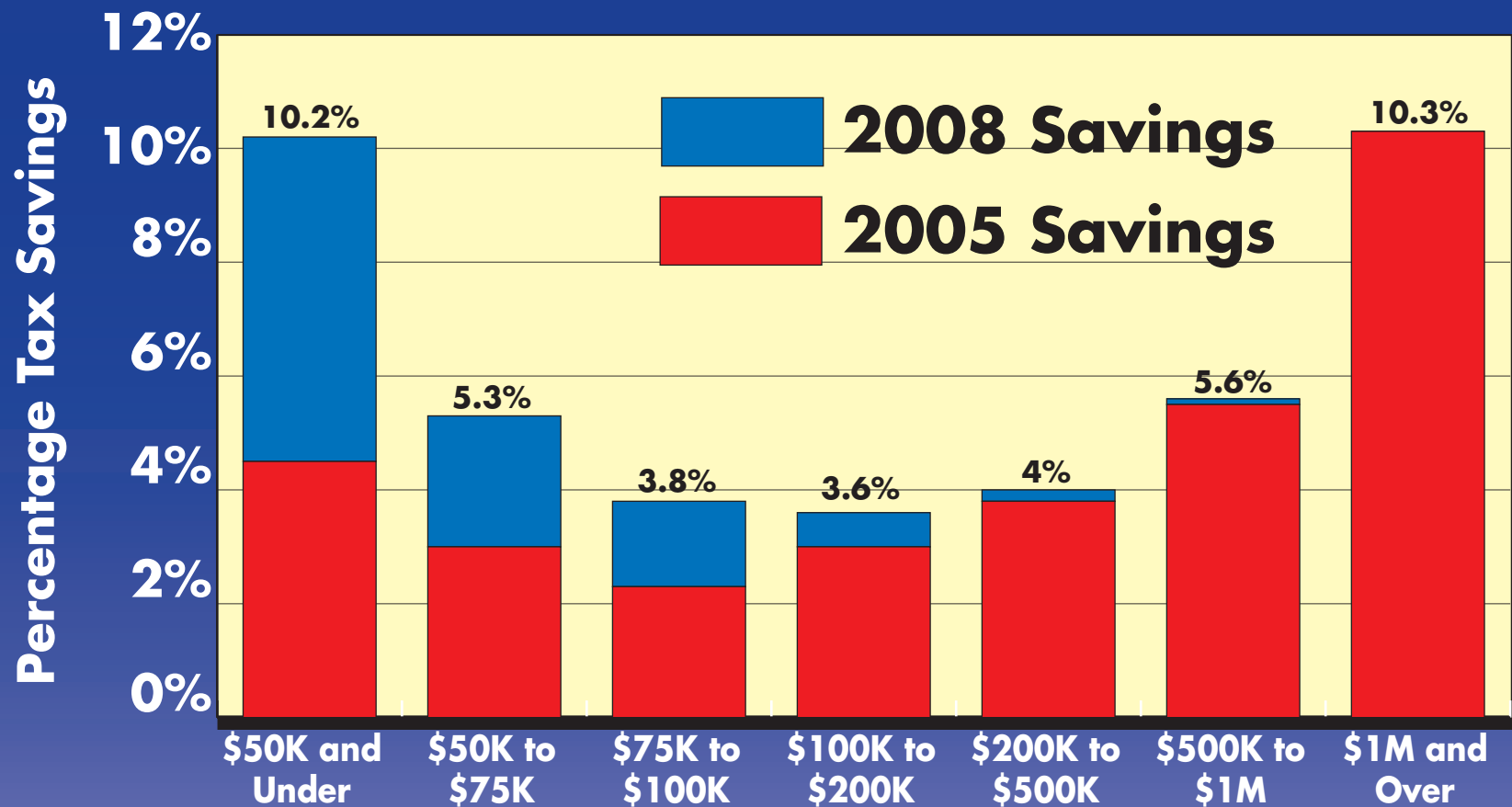
<u>AGI Level</u>	2006		2006		2006	
	Returns With AMT Savings		<u>Total Returns</u>		<u>Taxable Returns</u>	
<b>All Taxpayers</b>						
Less than 50,000	500,000		106,400,000	0%	44,000,000	1%
50-75	2,100,000		19,900,000	11%	19,200,000	11%
75-100	5,300,000		11,600,000	46%	11,500,000	46%
100-200	9,200,000		12,400,000	74%	12,300,000	75%
200-500	2,500,000		3,000,000	83%	3,000,000	83%
500-1,000	-		500,000	0%	500,000	0%
over 1,000,000	-		200,000	0%	200,000	0%
Total	19,600,000		154,000,000	13%	90,700,000	22%

<u>AGI Level</u>	2005		2005		2005	
	Returns With Savings on Dividends		<u>Total Returns</u>		<u>Taxable Returns</u>	
<b>All Taxpayers</b>						
Less than 50,000	6,300,000		107,800,000	6%	45,100,000	14%
50-75	4,300,000		19,500,000	22%	18,900,000	23%
75-100	3,500,000		11,300,000	31%	11,200,000	31%
100-200	4,800,000		10,900,000	44%	10,800,000	44%
200-500	1,700,000		2,600,000	65%	2,600,000	65%
500-1,000	300,000		400,000	75%	400,000	75%
over 1,000,000	200,000		200,000	100%	200,000	100%
Total	21,100,000		152,700,000	14%	89,200,000	14%

<u>AGI Level</u>	2005		2005		2005	
	Returns With Savings on Capital Gains		<u>Total Returns</u>		<u>Taxable Returns</u>	
<b>All Taxpayers</b>						
Less than 50,000	3,600,000		107,800,000	3%	45,100,000	8%
50-75	2,400,000		19,500,000	12%	18,900,000	13%
75-100	1,900,000		11,300,000	17%	11,200,000	17%
100-200	2,600,000		10,900,000	24%	10,800,000	24%
200-500	900,000		2,600,000	35%	2,600,000	35%
500-1,000	200,000		400,000	50%	400,000	50%
over 1,000,000	100,000		200,000	50%	200,000	50%
Total	11,700,000		152,700,000	8%	89,200,000	8%

Source of Data: Joint Committee on Taxation

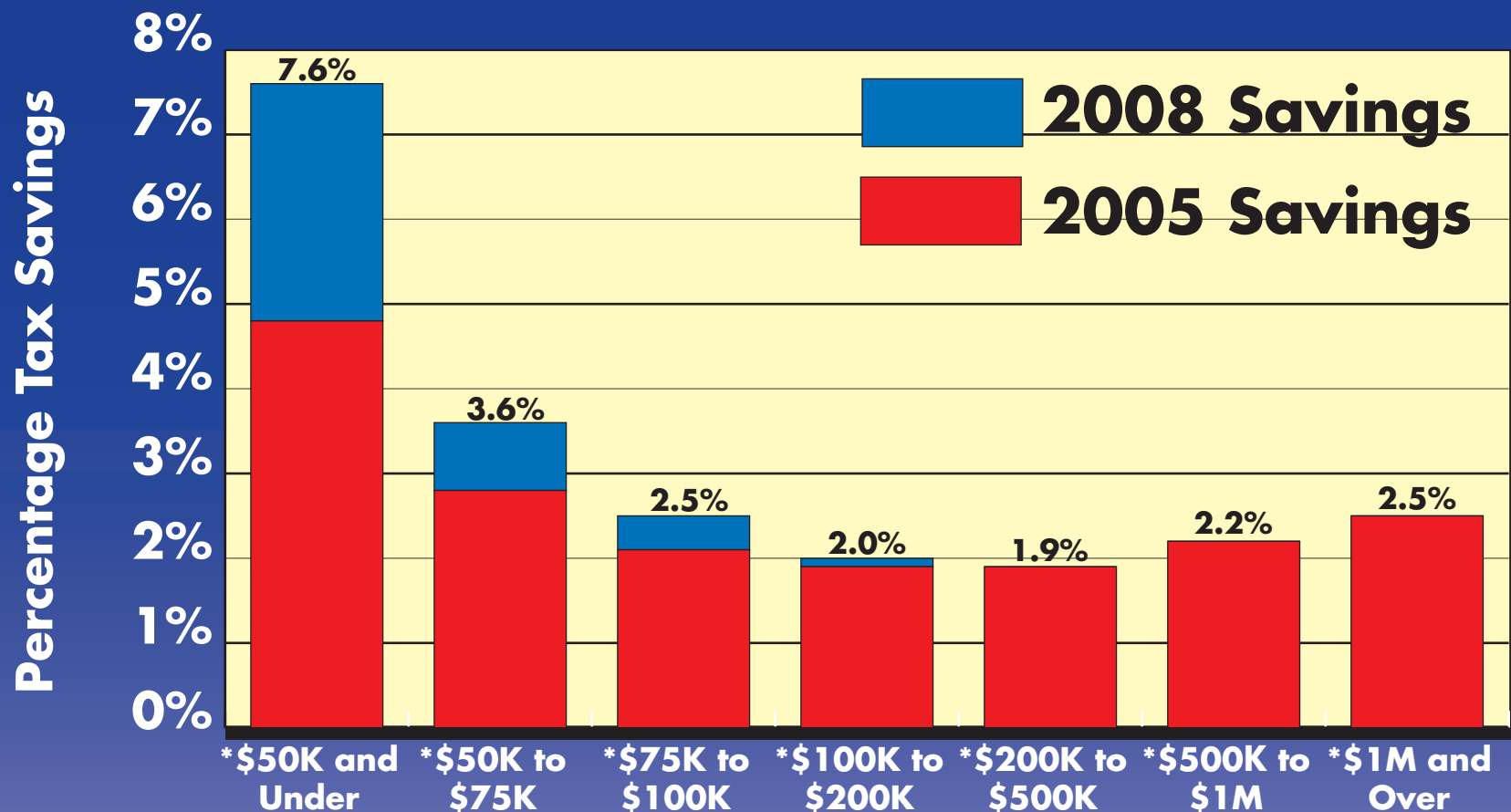
# Tax Savings as a Percentage of Total Tax Liability for Taxpayers with Long-Term Capital Gains Income



\*Adjusted Gross Income

Source: Joint Committee on Taxation and Senate Finance Committee Staff

# Tax Savings as a Percentage of Total Tax Liability for Taxpayers with Qualified Dividend Income



\*Adjusted Gross Income

Source: Joint Committee on Taxation and Senate Finance Committee Staff